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Contents

1	Poland: [REDACTED] i
2	West Germany - France: <i>Summit Meeting</i> 1
3	Argentina-Brazil: <i>Nuclear Capabilities</i> 2
4	Sudan-Kuwait: <i>Oil Deal</i> 3
5	[REDACTED] 3
6	USSR-Argentina: <i>Grain Purchase</i> 4

Special Analysis

7	Greece: <i>Papandreou's Foreign Policy</i> 5
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~~Top Secret~~

13 January 1982

~~Top Secret~~

1) POLAND:

In-
creased production of coal and other minerals is due to the six-day
workweek. The statement by a government spokesman that the regime
would like to end martial law soon should not be taken too seriously.
The NATO communique lauds the groundwork for future action by the
Allies.

Increased Production

Planning officials told a US Embassy officer in
Warsaw yesterday that production of coal and other min-
erals has increased since the imposition of martial law
because of greater work discipline but that output has
stagnated in sectors dependent upon Western materials.
One official said that the six-day workweek had been
introduced largely in the mining and transportation
sectors; other militarized sectors work longer hours
only if materials are available. He added that the
compulsory six-day workweek would end with the lifting

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~~Top Secret~~

13 January 1982

~~Top Secret~~

of martial law and the government would then have to increase market supplies to encourage miners and other key workers to work overtime voluntarily in return for extra pay. []

2 Comment: Increased production in mining is due to the six-day workweek rather than "high discipline." Consequently, the government will be very reluctant to give up the extra output and is therefore likely to prolong this element of martial law. The authorities may also extend the workweek in other militarized sectors if it can assure regular supplies. []

End to Martial Law?

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6 A government spokesman told foreign journalists yesterday that the authorities "would like to end" martial law by 1 February but hastily added that there is no timetable and that such a move "depends on the situation." Another spokesman said that "a place would be found for Walesa" in future agreements on trade unions. The same official said, however, that "We demand loyalty to the state," and added that union activity had been banned from government institutions and ministries. []

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6 Comment: The moderate comments seem intended to impress a Western audience and do not presage any breakthrough. Martial law authorities do not yet feel secure enough to end restrictions or to release significant numbers of those detained. []

The authorities would like to have Walesa's cooperation, but he still seems unprepared to play their game. The harsher references to loyalty are probably more representative of prevailing attitudes among regime officials. []

NATO Meeting

4
6 The NATO Foreign Ministers discussion did not produce a consensus on sanctions and did not significantly reduce national control over how and when to implement

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13 January 1982



~~Top Secret~~

specific measures. While the Greeks were alone in objecting to communique language on sanctions, the Turks, French, Canadians, and Nordic Allies all gave reasons why they cannot impose new sanctions now. West German Foreign Minister Genscher expressed the view that the Polish situation would not soon improve and that NATO now needed to consider future action. [redacted]

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6
Comment: Monday's communique was a high-water mark in NATO consultation, presenting a unified public front and laying the groundwork for future action if West European populations and governments come to believe that repression in Poland is worsening or will continue indefinitely. The communique could become the focus of intra-Alliance dispute, however, if the Warsaw regime engineers an easing of martial law that is considered cosmetic by some Allies but encouraging or even significant by others. [redacted]

[redacted]

~~Top Secret~~

13 January 1982

~~Top Secret~~

WEST GERMANY - FRANCE: Summit Meeting

Chancellor Schmidt and President Mitterrand probably hope to agree on a unified response to events in Poland during their hastily scheduled meeting in Paris today.

Top officials in both countries have expressed alarm about press allegations of differences between Paris and Bonn over Poland. The French, moreover, are concerned that divergent US and European reactions to Poland might lead to a split in the Alliance.

West German officials now believe that the Polish situation is deteriorating and that a unified Western position threatening further economic action might induce Moscow and Warsaw to tolerate residual reforms in Poland.

Comment: West German officials probably believe that a West European threat to reconsider participation in the pipeline project could provide leverage over the Soviets. Although West Germany's pipeline contracts have been signed, Bonn could more credibly threaten to reconsider its support for the project--largely in the hands of private companies--if France and Italy show less enthusiasm for it.

Schmidt will refer to his meeting with Mitterrand when he defends his government's policy before the Bundestag tomorrow against likely opposition charges that West Germany is isolated from its allies over Poland.

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13 January 1982

~~Top Secret~~

ARGENTINA-BRAZIL: Nuclear Capabilities

The head of Argentina's nuclear program in an interview published in Brazil has asserted that both Argentina and Brazil will be able to build nuclear weapons within three years. [redacted]

Comment: Argentina--but not Brazil--evidently could develop a nuclear weapon within three years. Both could probably complete weapon design and high-explosive testing, however, within three years. The availability of fissile material would determine the pace of production. [redacted]

Argentina is likely to have its unsafeguarded reprocessing plant in operation this year. [redacted]

1-3 Brazil does not have a suitable reactor or a reprocessing plant of any significant size. [redacted]

The Argentine official previously has claimed that Buenos Aires already can develop nuclear weapons but does not intend to do so, and his latest statement appears to have been made for propaganda purposes. The reference to Brazil may be calculated to allay concern there regarding Argentina's fast paced nuclear development and its ultimate intentions. [redacted]

~~Top Secret~~

13 January 1982

~~Top Secret~~

SUDAN-KUWAIT: Oil Deal

Sudan has obtained a six-month credit from Kuwait for refined petroleum products. The unusual deal, arranged through the private sector, pledges revenue from future cotton exports as a guarantee and eliminates the requirement that the private sector deposit 50 percent of cotton export receipts in Sudan's Central Bank. Sudan's only refinery has been closed for two weeks, and no supplies of crude have been arranged.

Comment: Khartoum's decision to mortgage the country's most important export crop is a desperate one, and Sudan will continue to have problems arranging oil imports. Although the deal with Kuwait will ease immediate fuel shortages, supplies will remain uncertain until the refinery reopens.

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USSR-ARGENTINA: Grain Purchase

1-3 The USSR has bought some 2.5 million tons of corn and sorghum and 1 million tons of wheat from Argentina since early December for delivery by 30 September 1982. It has paid a \$5- to \$10-per-ton premium over US prices for most of the grain. The Soviets started buying two months earlier than last year under the Soviet-Argentine Long Term Grain Agreement. [redacted]

Comment: Moscow may have decided to buy the grain early to avoid paying larger premiums that would be demanded if there is a US grain embargo. The USSR probably will import about 45 million tons of grain; its purchases and orders for the year ending 30 September now stand at 31.5 million tons. [redacted]

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SPECIAL ANALYSIS

GREECE: Papandreou's Foreign Policy

by Kurt Hochstein, CIA

Prime Minister Papandreou is seeking more advantageous terms for Greece in NATO and the EC and a strengthening of economic and political ties with the Arab states. These objectives reflect his concern over Turkey's growing strategic importance to the West and its claims in the Aegean and his recognition that Greece's poor economic outlook may force him to seek Arab financial assistance. Papandreou's pursuit of these goals will lead to further strains in relations with Turkey and the US, but most Greeks will support his efforts so long as he does not sever the defense relationship with NATO and the US.

Papandreou's policies thus far have been ambiguous, but there is little doubt that his overriding objective is security against Turkey. His contentious diplomacy at high-level NATO meetings last month was primarily a tactic aimed at reviving Alliance interest in Aegean issues, particularly the Greek concern to maintain a military balance with Turkey. Although Papandreou will continue trying to exploit NATO, he probably thinks the coming defense negotiations with the US offer a better opportunity to obtain more military aid and, if possible, a treaty commitment securing Greece's Aegean borders with Turkey.

Papandreou might retract his demand for a specific security guarantee if the US provides weapons on financial terms no less favorable than those offered Turkey and in dollar amounts that approximate a 7 to 10 ratio of US military aid to Greece and Turkey. The highest priority is an advanced fighter aircraft.

The Greek leader will be more willing than his predecessors to apply pressure by linking the presence of nuclear weapons and US facilities in Greece to satisfaction on aid and weapons transfers. He might buttress

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~~Top Secret~~

13 January 1982

~~Top Secret~~

his position by abrogating the treaty of 1953--the basis for the US presence--and by reiterating his threat to set a timetable for the withdrawal of US forces, probably over 15 years or so. []

Athens, anticipating a tough US bargaining stance, is interested in further diversifying its source of weapons and has increased arms negotiations with France. []

The Economic Impetus

Papandreou does not seem inclined to cut Greece's high rate of defense spending. Although he already has shown signs of curtailing ambitious domestic spending plans, he still will have difficulty controlling growing trade and public sector deficits and reducing a persistent 25 percent annual rate of inflation. Prospects are dim, moreover, that Papandreou will receive major concessions from the EC. []

The need to broaden sources of economic assistance has led Papandreou mainly to the Arabs. The government has signed trade protocols with Arab states, particularly Iraq, that could bring in investment and contracts for industry. The Greek Socialists hope that the visit of PLO leader Arafat and Papandreou's pro-Arab stance in EC and NATO forums will encourage the Arabs to follow through on the contracts and provide financial assistance. []

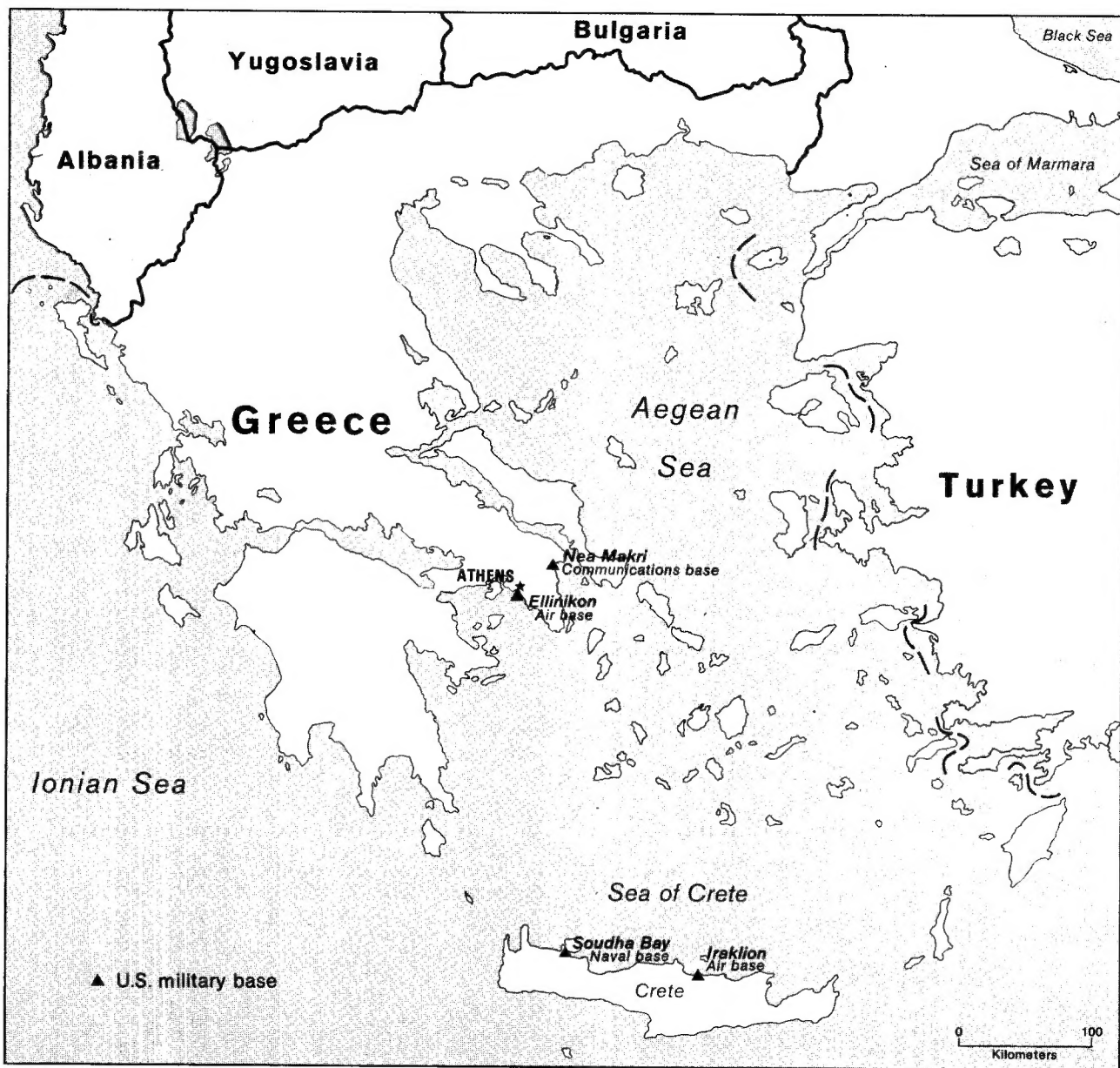
Papandreou does not seem prepared to pay the political costs required to attract large amounts of Arab capital, including a break in relations with Israel. Such a step would put him at odds with his EC partners and probably lead to a loss of Greek influence in the Community. []

Strategy and Risks

Papandreou also is taking some risks in NATO. His implicit threat to hold up parliamentary ratification

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of Spain's application for membership until the Alliance provides a security guarantee against Turkey has irritated many members and ultimately could lead them to hold back on infrastructure projects Papandreou wants to improve Greek military capabilities. []

In the Aegean area, Papandreou's refusal to negotiate disputes with Turkey is edging relations back toward the stormy period of the mid-1970s. Even though miscalculations by either side could produce minor incidents, Papandreou would not find a showdown with Turkey in the Aegean in Greece's interests. The military regime in Ankara, however, could use military exercises or a renewal of maritime seismic explorations to press its demands for a more equitable sharing of Aegean sea, air, and mineral rights. []

17 Greece will concentrate on anti-Turkish propaganda in international forums, focusing on the Aegean and Cyprus issues. Papandreou's dissatisfaction with UN-proposed compromises will make it easier for President Kyprianou to take a hard line on Greek Cypriot concessions. []

Papandreou probably hopes that his strength in Parliament, as well as his cooperation in allowing US facilities to continue functioning in Greece, will give him ample maneuvering room in what could be lengthy negotiations with the US. If a stalemate develops in the base talks, Papandreou might restrict the activities of some US facilities. []

The Prime Minister almost certainly would not close the four principal US military bases, with the possible exception of the communication facility at Nea Makri. Closure of the other bases would abrogate the US commitment to Greek security and thus probably would provoke a strong domestic reaction against Papandreou, possibly including military intervention. []

Papandreou has thus far not made any direct attempts to improve relations with Moscow. His tentative reaction

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to the crisis in Poland is more than a sop to the strong left wing of his party; it probably also is intended to build credit with the Soviets for increased economic cooperation or for diplomatic support in the disputes with Turkey. Moscow has generally given priority to developing relations with Turkey, which is the largest recipient of Soviet economic aid outside the Soviet bloc.

Domestic Perspectives

1-9 Papandreou's foreign policy actions to date have enhanced his domestic political standing. The opposition New Democracy party has offered only mild criticism of the government's foreign policy. The pro-Moscow Communists, the third largest party in Parliament, have been the most vocal critics, chastising Papandreou for not breaking with the EC and NATO.

Most Greeks probably recognize that Papandreou's rhetorical flourishes do not represent fundamental shifts in foreign policy. Meanwhile, President Karamanlis and the military leadership continue to take a "wait and see" attitude but Karamanlis's New Year's message to the nation contained a subtle warning to the Socialists that they should not move too abruptly, particularly on the foreign policy front.

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